



## County of Los Angeles CHIEF EXECUTIVE OFFICE

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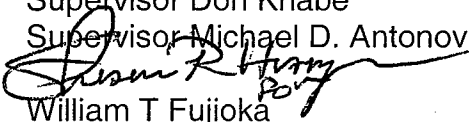
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MICHAEL D. ANTONOVICH  
Fifth District

November 21, 2008

To: Supervisor Yvonne B. Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich  
From:   
William T Fujioka  
Chief Executive Officer

### SACRAMENTO UPDATE

#### Extraordinary Session on the Budget

The Senate and the Assembly have postponed their sessions until Tuesday, November 25, 2008, and there is a possibility that neither house will meet if there is no deal between the Governor and the legislative leadership. This extraordinary session will end on November 30, 2008 when the 2007-08 Legislative Session officially concludes, and it is likely that the Governor will call another extraordinary session sometime after the 2009-10 Legislature convenes on December 1, 2008.

The Assembly held a general overview hearing on the Governor's November Revision and on the foreclosure crisis, but the Senate has not, nor is it expected to hold any hearings prior to the end of the 2007-08 session.

#### Legislative Analyst's Office: California's Fiscal Outlook Report

On November 11, 2008, the Legislative Analyst's Office (LAO) issued its Overview of the Governor's Special Session Proposals Report which indicated that the State will face massive budget shortfalls through at least 2014. While the LAO concurred with the Administration's assessment of the magnitude of the State's fiscal crisis and characterized the Special Session proposals as "a comprehensive and ambitious package," the LAO estimated that the State must solve a \$27.8 billion problem by the end of FY 2009-10. The LAO also noted that the State would be faced with annual

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operating shortfalls in the \$22 billion range through FY 2013-14, if immediate corrective action is not taken.

On November 20, 2008, the LAO released its California Fiscal Outlook: LAO Projections, FY 2008-09 through 2013-14 report, which reaffirms its projections of State Budget shortfalls through FY 2013-14. The report provides additional information on the LAO's findings and makes a number of recommendations for the Legislature to consider when the FY 2009-10 State Budget is developed.

Based on updated revenue and expenditure forecasts, the LAO notes that the State's projected \$1.7 billion reserve is depleted and the budget deficit will be approximately \$8.4 billion by the end of FY 2008-09. The LAO attributes this \$10 billion turnaround primarily to the deteriorating economy which has affected the State's three major revenue sources, the personal income tax, sales and use taxes, and the corporate income tax. Actual revenues from these sources are running considerably short of the estimates included in the enacted budget. In addition, the LAO projects increases in spending as a result of lower property taxes received by schools, and cost increases attributable to higher caseloads in health and social services programs reflecting increased demand during difficult economic times.

For FY 2009-10, the LAO forecasts an even worse problem, as a result of the steep revenue decline and increased spending. The LAO projects that State General Fund revenues will decline by 7 percent from current year levels and spending will increase by 1.7 percent which would result in expenditures exceeding revenues by \$19.4 billion. Combined with the current year deficit, the LAO estimates a \$27.8 billion deficit by June 30, 2009. The LAO also points out that the FY 2009-10 State Budget is still dependent on voter approval of the securitization of future lottery proceeds which would generate an additional \$5 billion in bond revenues that year and in FY 2010-11.

For FY 2010-11 and beyond, the LAO notes that the dramatic collapse in State revenues and the weakness of key economic factors would prolong the massive budget shortfalls through FY 2013-14. According to the LAO, once revenues begin to rebound in the later years of the forecast, fast-growing program spending on Medi-Cal, social services programs, and debt service, would prevent the State from balancing its revenues and spending.

Consistent with its November 11, 2008 report to the Legislature, the LAO identifies a number of key components to bring the FY 2008-09 and FY 2009-10 budgets into balance. The recommendations include:

- **Early Action.** Begin laying the groundwork now to ensure a full year's worth of savings in FY 2009-10 and guarantee that the State can continue to meet its cash flow demands.
- **Balanced Approach.** Decrease base spending and increase revenues to achieve a balanced approach.
- **Lasting Solutions.** Focus on long-term solutions that have ongoing impacts.
- **Rethink State Operations.** Use the budget crisis as an opportunity to evaluate existing State operations to restructure or eliminate duplicative and non-essential programs.
- **No New Borrowing.** Avoid additional borrowing because it would push the budget problem into FY 2010-11 and it would only worsen the situation in the out-years.

The LAO's complete report is available at: [www.lao.ca.gov](http://www.lao.ca.gov).

### **Democratic Leaders Seek Federal Assistance**

On November 17, 2008, Assembly Speaker Karen Bass, Senate President pro Tempore Don Perata, and Senate President pro Tempore-Elect Darrell Steinberg sent a letter to House Speaker Nancy Pelosi and Senators Barbara Boxer and Dianne Feinstein requesting the prompt adoption of another economic stimulus plan. The letter states that California is facing a projected deficit of \$28 billion over the next 20 months, and that Federal assistance is critically needed to avoid massive cuts in health, education, public safety, and transportation. The legislative leaders cite key elements in H.R. 7110, which was passed by the House in September, 2008, that would be of significant help to California. They are: 1) an increase in the temporary Federal match rate for Medi-Cal; 2) the extension of Federal Unemployment Insurance benefits as California's unemployment rate is expected to rise above 9 percent in 2009; and 3) increased Federal public infrastructure project funding.

### **Governor Signed Lottery Legislation**

On November 14, 2008, the Governor signed AB 1654 (Committee on Budget), which would provide the Lottery Commission with greater flexibility in determining lottery cash prize payouts, and AB 1741 (Committee on Budget), which would authorize the

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securitization of the Lottery through the sale of lottery revenue bonds. AB 1741 is expected to generate approximately \$5 billion for the State in FY 2009-10.

### **California Fires**

Governor Schwarzenegger announced that another One-Stop Local Assistance Center for fire victims will open at the Sylmar Recreation Center on Thursday, November 20, 2008. This center complements those opened earlier this week in Santa Barbara and Anaheim. Additionally, the Governor announced an increase in State resources available to fire victims, including cash grants of up to \$10,000 to help with medical costs, transportation, housing, and replacement of household items.

### **Environment**

On November 18, 2008, the Governor joined with the Governors of Illinois and Wisconsin, and six governors from Brazil and Indonesia in signing a Memorandum of Understanding to reduce forestry-related greenhouse gas emissions. On November 19, 2008, the Governor joined with 26 leaders from six nations to sign a declaration acknowledging the threats of global warming and called on states and provinces to further strengthen cooperative efforts to reduce greenhouse gas emissions.

We will continue to keep you advised.

WTF:GK:MAL  
IGA:er

c: All Department Heads  
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